

Sectoral Clashes, Basic Economic Rights and Redemocratization in Chile: A Meso-economic Approach¹

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Introduction

When I met with the Chilean Ambassador to the United States Patricio Silva in the summer of 1990 in Washington, D.C., I asked him how the economic situation was in Chile. He responded: "it is normal.² The discussion is about the appropriate fiscal and monetary *macro* economic policies. Higher or lower interest rates and so forth." Privatization, liberalization, foreign investment, freedom of markets are considered as sacrosanct elements of an almost universally accepted institutional framework that Enrique Iglesias and the Interamerican Development Bank consider as a model for other Latin American countries as well (The IDB, May 1991: 3).

The main point of my present article is that fiscal and monetary macroeconomic policies are regaining their traditional role of guiding and steering short, medium and long term economic growth because of the mesoeconomic policies followed during the 1973-1990 authoritarian era dominated by General Augusto Pinochet Ugarte. The economic lessons for the rest of Latin America, Eastern Europe, Africa and most of Asia that can be derived from the Chilean 1973-90 authoritarian interlude, are of meso-sectoral nature.³

Although far from complete and having faced repeated and sharp setbacks, it is the package of meso, sector oriented economic policies of the post-Allende years that deserves much of the credit for Chile's institutional reform of the post 1973s and 1980s. The epitome of this reform is to be found in the free election of Patricio Aylwin to the coveted Chilean Presidency. The Chile that was being torn apart as a consequence of the fierce pre-1973 sectoral

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clashes emerged in 1990, as a Phoenix out of ashes, with most sectoral conflicts removed. It is the mesoeconomic, sector-based and sector-oriented economic policies that paved the path of redemocratization that I want to highlight. Examined in the sections that follow are the sectoral, mesoeconomic policies in respect to government, trade, finance, industry and services and agriculture which have created the economic-institutional framework inherited by President Patricio Aylwin.

An attempt is made to identify Chile's mesoeconomic structure: its origin, its present nature, its strengths and shortcomings and where it needs change. I begin with an examination of government.

I. Government

The Incomplete Transition From Government Services and State Disintegration, Chaos, Disorder and Rigidities to Democratic Reunification, Integration and Flexibility.⁴

The meaning, structure, nature and impact of the sectoral output value of public administration and defense, i.e. of government services, has been one of the most hotly debated issues both within and outside Chile.

The governmental output value is *primus inter pares* among all sectoral output values. And so is also the governmental among all mesoeconomic policies.

It is the responsibility of governmental economic policy to produce a public administration and defense output value that delivers other mesoeconomic policies that are nondiscriminatory.

The quality of governmental mesoeconomic policy and output value delivered in Chile has ranged between inadequate and abysmal ever since Independence.⁵ Producing the collective commodities of public administration and defense has never been an easy task.

When, in addition, there is a lack of a consensus on the part of the population about the substance of the fundamental constitutional order, as it was in Chile, especially during the Allende Presidency, the descent to political, social and economic chaos is almost inevitable.

The debate about the benefits and costs of the draconian measures introduced by the military after September 11, 1973 will remain heated. The elements of this debate that I would like to emphasize relate to one central point: how can a "governmental output value" be produced that guarantees the human, social, political and economic rights of all Chileans and thereby

prevents the excesses of the periods both before and after 1973. What mesoeconomic policy in respect to government can achieve a stable and real rather than unstable and just formal political, social and economic democracy.

The present article aims to facilitate the formulation of such a meso policy. To begin with I repeat here the hypothesis that I have advanced repeatedly in the past that Chile's social, economic and political problems have been the consequence of inadequate mesoeconomic policies and sectoral meso output values, i.e. rampant and pervasive sectoral conflicts, rather than improper micro or macroeconomic policies or Marxist class struggle.

The issue of the choice of a constitutional economic order is a meso one, pertaining to the consensus about the "output value" of government. In Chile, ever since Independence, but especially during the Age of Nitrate (1880-1930) and 1930-73, sectoral conflicts of a variety of constellations prevented the agricultural, industrial, mineral, governmental, financial, other sectoral, as well as factor market unification and integration that were required to achieve stable democracy and sustained economic growth.

The challenge to the new democratic regime of President Aylwin is to prevent the reintroduction and resurgence of the pernicious sectoral conflicts that afflicted Chile both before and after 1973.

This is a challenge of the first order. It is a challenge only a democratic regime can meet. It is a challenge which threatens the life expectancy of any political regime, but especially a democratic one, if it is unwilling or unable to meet it.

Because of the authoritarian nature of the Chilean State during 1973-1990, any effort towards redemocratization, unification and homogenization of the state was from its very inception incomplete. The present Chilean democratic government has the unavoidable responsibility of picking up the process of democratization where General Pinochet left it, that is in the political arena.

The achievements of the governmental mesoeconomic policies under the Military in the sphere of economic rights need to be expanded and encompass the spheres of social and political rights. The enormous political price paid during 1973-90 should not blind the new leaders from recognizing the enormous progress towards economic, social and even political unification and integration made before 1990.

The political and economic edifice delivered by Pinochet to Aylwin was incomplete. If built upon and completed, it may deliver a stable democracy. If destroyed, Chile's newly born democracy may also be buried underneath the rubble.

II. Trade

The Comprehensive Transition From Domestic and International Trade and Commerce Disintegration, Chaos, Disorder and Rigidities to Trade Unification, Integration and Flexibility.

One of the most severely discriminated against sectors in the years preceding 1973 was the trade one. The prevailing mesoeconomic policy had as its pillar the belief that "the sectoral trade output value" was not only inferior to the "industrial value" but, even worse, that it impeded, blocked economic development. "Trade value," by creating an undesirable dependency, was held responsible for numerous structural defects.

Actual mesoeconomic policy used such instruments as quotas, multiple exchange rates, tariffs, and numerous other nontariff barriers to literally destroy the "sectoral trade value." Along with other ones, these ill-conceived and ill-executed meso-trade economic policies gave birth to fierce internal and external sectoral clashes and ushered in not only the trade stagnation and "external dependency" of pre-1973 but also military authoritarianism as an undesirable *ultimum remedium*..

In few areas has a post-1973 mesoeconomic policy towards unification and integration been as successful as in the case of trade. Chilean exports increased, diversified and acted both as a handmaiden and motor to economic development. Quite remarkably, government removed almost all legal tools that prevented the sectoral "trade value" from reaching its natural level. Even here, however, the cardinal error of a fixed exchange rate during 1979-81 and its induced sectoral conflicts, showed how inadequate the understanding of the appropriate trade-oriented, sectoral, mesoeconomic policy can be.

However, once again, through trial and error, the mesoeconomic policies had achieved by 1990 a high degree of trade unification, integration and homogenization. "Trade liberalization" was but one dimension of the "integrated trade mesoeconomic policy." However, as of 1991, both internal and external trade unification is by no means complete. Much needs to be done before Chile reaches its full "trade value" potential.

Any type of a mesoeconomic policy that deprecates "trade output value," or even a false perception that such a policy is in the winds, could stall Chile's spectacular export engine. It could also place some painful thorns in the so desirable path to full democratization.

Although the basic economic rights of freedom, justice and equality⁶ are necessary ingredients of all sector-oriented mesoeconomic policies, in few are they as evident as in trade. Unless people are free to move and resources are

freely exchanged within and between national frontiers, the actual production of composite commodities and components thereof will be below the potential. It is necessary, however, to also have equality and justice in access to the benefits from trade.

The challenge of President Aylwin's team is to formulate and implement a mesoeconomic policy towards trade that meets the criteria and principles of economic freedom, justice and equality. Any denigration of "trade output value" would represent a step backwards. Business cycles provide us with a powerful reminder that "trade values" have a continuously varying dynamic nature.

If real democracy is to be achieved, the cyclically fluctuating "trade values" must be viewed as a welcome market signal to production adjustment towards an ever moving target of "trade unification" rather than as an excuse to implement "protectionist" mesoeconomic policies that distort, even destroy "trade output values," and violate the basic economic rights of freedom, justice and equality.

III. Finance

The Remarkable Transition From the Pre-1973 Credit, Financial, Money and Capital Market Disintegration to a Gradual Financial Unification.

The sector producing the unit-of-account, transactions and store-of-wealth services was one of the most distorted and discriminated against before 1973. Property rights, the very foundation of financial unification, were vilified and assaulted, especially during the Allende years. As the indispensable "financial sector output value" was systematically attacked, a meso financial output rigidity became largely responsible for Chile's descent to the abysmal hyperinflationary chaos of 1973. Financial sector output value disintegration, segmentation and rigidity were haunting Chile in 1973.⁷

The 1973-1990 mesoeconomic strategy towards the financial sector aimed at sectoral unification and homogenization by removing most, if not all, vestiges of discrimination. Property rights were restored. The sanctity of contracts was reinstated.

The path to normalcy, however, was arduous. The financial panic of 1981, the foreign debt crisis and recurrent inflationary pressures showed that "financial value" unification can be an elusive goal. Gradually, however, Chile moved from a unit-of-account, coinage and monetary chaos and the disorder

of hyperinflation to a respectable but by no means complete currency, unit-of-account, transactions, measurement and store-of-wealth unification.

Both the quality and quantity of financial services were improved by attempting to provide even and equal access to the rich and poor, young and old, farmers, industrialists and merchants, households and enterprises. Although the supply of sectoral "financial value" currently displays a high degree of unification and elasticity, both internal and external shocks could reveal an underlying fragility.

The degree and strength of redemocratization will be intimately linked to the success of democratic policies of maintaining the financial sector output value through price stability. As long as Chilean inflation exceeds ten per cent per year, financial disintegration will remain an integral, dangerous part of the economic system.

Thus, even though a large segment of the road to financial unification had been traversed by 1990, such unification had not been completely and permanently achieved. The threat of a return to rising financial disintegration, however remote, is still present.

The lesson here is that mesoeconomic policies towards stable, reliable and flexible output value of the financial sector must enjoy utmost priority if stable growth and democracy are to be achieved. A return to the pre-1973 irrational attack against the "financial output value" would represent an undesirable and by all means to be avoided mesoeconomic policy of both economic and political-democratic self-destruction.

Although traditional economic theory correctly emphasizes the developmental role of capital market integration, unification and development, it has failed to stress sufficiently that such an advanced capital market is the consequence, i.e. the mesoeconomic output value, of the financial sector.

As part of the present section, I believe it is necessary to emphasize the perennial danger of *price and price level disintegration* and the quite successful 1973-90 transition from *Unprecedented Price Disintegration and Chaotic Inflation to Price Unification and Stability*.

Price level unification and integration, i.e. price stability, is an indispensable condition for a "natural output value" by the financial sector. Ironically, neither monetary nor fiscal macroeconomic policies can be effective without a natural and elastic "financial sector output value."

However, any combination of monetary and fiscal macroeconomic policies that lead to self-sustaining, irreversible rates of inflation in excess of ten per cent per year, represent and embody a mesoeconomic policy that deprecates and destroys the "natural financial output value." In turn, such a discriminatory financial mesoeconomic policy creates a financial rigidity and

institutional disintegration that make monetary and fiscal macroeconomic policies inoperative. This was the case under Allende. And it is also the case currently of Peru, Brazil, Argentina and Nicaragua.

Few ingredients of social policy towards the poor, old, sick and so forth are as critical as they are neglected as that of financial and price unification and stability. Much of the secular Latin American retrogression and dependency is a direct consequence of the long term sectoral conflicts inherent in inflationary monetary and fiscal macroeconomic policies that have directly victimized the financial sector and indirectly price stability.

IV. Industry

The Turbulent Transition From the Pre-1973 Industrial Disintegration and Rigidities to the Post-1990 Unification and Integration.⁸

Industrial disintegration exists when the domestic industrial sector fails to produce the level and composition of "industrial output value" needed for economic development. Industrial disintegration exists when the supply of industrial output is rigid and unable to compete internationally with other industrial sectors and cannot meet the ever changing needs of other domestic sectors for intermediate or capital industrial composite commodities.

The pre-1973 industrial disintegration in Chile was the direct consequence of rampant sectoral conflicts which, in theory, treated industry preferentially, advancing it to the status of dominance, while subjecting neglected agriculture and finance to discriminatory treatment. In practice, these allegedly proindustrial mesoeconomic policies created enough intermediate commodity shortages to precipitate industry's almost complete collapse by 1973.

Ironically, the post-1973 industrial mesoeconomic policies aiming towards restoration of its natural output value, as determined by international market forces, became as flawed after 1979 as they were during any time before 1973. Through the infamous fixed exchange rate of 39 pesos to one dollar of July 1979, all domestic sectors, but especially the industrial one, were exposed to an unnatural onslaught of artificially subsidized imports.

As a series of related misguided mesoeconomic policies penalized the composite export sector and largely created the unsustainable expenditure (absorption)-output gap of 1979-82, there arose unprecedented and undesirable capital inflows and the internal financial and external debt crises. Fortunately, the pragmatic mesoindustrial strategy pursued during 1982-90 has contributed

to an unprecedented degree of unification and integration of industry. This industrial revival has contributed to an impressive export diversification, a reduction in the rate of unemployment and a move towards global integration on a scale and magnitude unimaginable before 1973.

The continued thrust of industrial mesoeconomic policy under the leadership of Minister of Finance Alejandro Foxley towards global unification and integration takes full advantage of and reinforces the Chilean process of democratization.

Chile, which before 1973 was Latin America's master leader of destructive sectoral conflicts under the aegis of well-intentioned but fundamentally flawed inward-oriented dependency "theories," has now become the apostle of sectoral-class free international unification. Once again, the gospel being preached is one of "natural" mesoeconomic policies dismantling all barriers to the realization of natural output values of industry and other sectors as well.

The issue never was and never will just be one of "liberalization" but one of unification and integration of the industrial sector and output value as well as of all other sectors.

Liberalization remains important as a subset of unification, which also includes market development in terms of both quantity and quality. Temptations and pressures to abandon neutral mesoeconomic industrial policies are likely to increase under democracy as special interest groups exercise the "freedom" of putting their parochial interests over the "common good."

Any surrender, however, by the Chilean Democratic State of its power to formulate and maintain a just mesoindustrial policy to special interest groups, be they labor unions, associations of capitalists, or "labor-capital" sectoral blocks, is likely to reduce its legitimacy and staying power and, therefore, needs to be avoided at all costs.

V. Labor

Persistence of Labor Market Disintegration and Segmentation in Spite of Mesoeconomic Policies Towards Unification and Integration.⁸

The social, economic and political problems that face Chile in 1991 are formidable. But they are almost minor compared to those afflicting Peru, Nicaragua, Argentina, Brazil and so forth. It is beyond the scope of this paper to examine each one of them. The focus has been on identifying the mesoeconomic problems, i.e. those problems arising from a rigid and inadequate

supply of sectoral output values as a consequence of inappropriate governmental mesopolicies. The “governmental,” “trade,” “financial” and “industrial” problems and related mesoeconomic policies have been already discussed.

In this section I want to examine the historically most pernicious problem of Chile, i.e. of labor market segmentation and disintegration, from a mesoeconomic, sectoral perspective, which I consider to be the most appropriate.

Chile has suffered from labor market disintegration and segmentation ever since Independence. This has shown up in extremely low income shares of the bottom forty per cent of households.

The hypothesis advanced here is that the level and composition of the demand of labor have been inadequate, indeed distorted, because of sectoral clashes arising from erroneous mesoeconomic policies. Unless the prevailing clash-promoting mesoeconomic policies are corrected, labor market segmentation and disintegration will continue, even if the rate of unemployment is reduced to historically low levels of three or four per cent. Before I describe and analyze what I consider to be the incorrect mesoeconomic policies, I would like to stress that significant progress towards labor market unification had been made by 1991. Economic prosperity has raised economic welfare of large numbers of Chileans to levels far above those of 1973. This is disputed by almost no one.

However, on the dark side, the historically haunting problem of widespread, endemic economic orphanage has remained as intractable as ever. Households representing millions of Chileans remain at the margin of production as rural or urban economic orphans reaping minimum, if any, benefits from its export-propelled prosperity. As Chile is making significant advances in achieving trade, financial, industrial and agricultural unification at the global level, internal labor market segmentation and disintegration remain an intractable problem.

The roots of this problem can be found in the lack of adequate education, health, welfare and governmental sectoral unification and output values as a consequence of neglectful, even discriminatory, underlying mesoeconomic policies.

Chile has suffered from patterns of mesoeconomic disintegration in the areas of education, health, welfare and government that are typical of Latin America as a region but are largely absent from the Asian economic success cases of South Korea, Taiwan, Singapore, Hong Kong and even Thailand. Chile’s structural defects are of mesoeconomic, sectoral nature. Unless removed through appropriate mesoeconomic policies, they will provide undesirable support to both the Extreme Right and Left.

The mesoeconomic policies responsible for Chile's labor market disintegration and inequality of income distribution are:

1. An *educational* mesoeconomic policy that has traditionally catered to the middle and upper classes, ignoring or neglecting the masses of poor, migrant, landless rural and urban families. Investment in human capital has been socially segmented rather than integral, homogeneous and intensive as in Korea, Taiwan, Hong Kong and so forth.

2. *Health, nutrition, and welfare* mesoeconomic policies have always favored and reinforced the advantages which the middle and upper income groups have had over the poor. Access of the economic orphans of between forty to sixty per cent of the Chilean population to health, nutrition and welfare services has been inferior and inadequate ever since Independence, even though many would agree that it has been improving.

3. Due to the perennial sectoral conflicts afflicting Chile, both the demand and supply of labor have failed to create the labor shortage and productivity increases needed to achieve labor market unification and drastic real income increases of the hitherto economic orphans. Pinochet passed on Chile to Aylwin at a threshold: never before has the constellation of social, economic and political forces been so favorable to solving the Gordian knot of economic orphanage.

All governments of Chile have strived, according to their official declarations, towards, to use Sergio Molina's, Chile's Minister of Planning and Cooperation under President Aylwin, expression "economic growth, social equity and environmental quality" (CER, April 1991: 3). Social policy, again using Molina's words, must take corrective actions "to remedy certain notable deficiencies in health, housing and education and to amend inequalities of opportunities and in the quality of services offered" (CER, April 1991: 3-4).

Unless the pie being baked by Chilean business continues expanding rapidly and unless the large majority of Chilean businesses and households are directly involved in baking this increasing pie, economic orphanage will remain the nation's albatross. Not fine tuning, but drastically unified mesoeconomic policies in respect to finance, trade, industry and services will be the necessary complements to sound monetary and fiscal macroeconomic policies. Unless all Chileans enjoy the same economic rights of freedom, equality and justice, the mesopillars will be too weak to support and nourish a larger, more productive macroeconomic edifice.

VI. Agriculture

Successful Transition From Pre-1973 Agricultural Discrimination and Disintegration to Unification and Homogenization.¹⁰

It would be an omission of serious proportions if I did not mention the phenomenal agricultural discrimination and disintegration before 1973 and its remarkable but by no means complete recovery and unification by 1991. Agricultural growth, especially the export oriented one, is one of the stellar successes of post-1973 mesoeconomic policies.

Although the positive, with the unfortunate exception of the 1979-82 period, agricultural mesoeconomic policies have turned into a myth its alleged "traditional inferiority," rural poverty and underdevelopment persist. Agricultural progress has not eradicated the pervasive problem of rural poverty.

All mesoeconomic policies pursued in Chile need to enhance both urban and rural sectoral output values, if both urban *and* rural poverty are to be removed.¹⁰ May the winds be favorable for the sails of the newly launched Chilean economic, social and political ship.

NOTES

1. Presented at the 47th International Congress of Americanists, New Orleans, 7-11 July, 1991. Symposium "Economía y sociedad en Chile después del neoliberalismo".
2. The literature on Chilean economic development during the Pinochet years is quite extensive. Much of this literature is cited and/or reviewed in Hojman (1986), (1985) and Mamalakis (1989c), (1989d), (1985b), (1985e) and (1983b).
3. For a presentation of the theory of sectoral clashes and coalitions see Mamalakis (1971), (1969).
4. The role of government in Chilean economic development is reviewed and examined in Mamalakis (1989c) and (1988a).
5. For a presentation of long-run statistics and economic analysis see Mamalakis (1989c) and (1976).
6. An examination of the basic economic rights which are needed for economic development is found in Mamalakis (1989a) and (1989b).
7. The characteristics of the financial services and both integration and disintegration of the financial sector are described in Mamalakis (1988b), (1987), (1985a) and (1985d).
8. Statistical information covering the period from 1986 to February 1991 on industrial production, prices, supply of money, exports and the price of copper is found in CORFO (1991).
9. The characteristics of labor market segmentation as a consequence of sectoral clashes and coalitions are described in Mamalakis (1983a).
10. The relationship between agricultural and rural integration, disintegration, stagnation and development is examined in Mamalakis (1985c).
11. A variety of mesoeconomic problems, issues and strategies are discussed in Mamalakis (1985-86), (1985c), (1985d) and (1983a).

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